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UNCLAS SECTION 01 OF 02 YEREVAN 000382

SIPDIS

SENSITIVE

DEPT FOR EUR/CACEN AND NP/SC
DOE FOR CHARLES WASHINGTON
USAID FOR EE/W
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PLEASE PASS NNSA FOR DENNIS MEYERS PLEASE PASS USAID FOR
ROBERT ICHORD

E.O. 12958: N/A

TAGS: [ECON](#) [ENRG](#) [AM](#)

SUBJECT: ARMENIA WON'T COMMIT TO SHUTDOWN DATE FOR NUCLEAR
POWER PLANT: EU PULLS MONEY OFF THE TABLE

[11.](#) (U) SENSITIVE BUT UNCLASSIFIED. PROTECT ACCORDINGLY. NOT
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SUMMARY

[12.](#) (SBU) During the February 10 EU-Armenia working group on
Armenia Nuclear Power Plant (ANPP), Armenia would not commit
to a new closure date for the ANPP and the EU side refused
to convene a donor's conference and withdrew its long-
standing offer of 100 million euro grant towards replacement
capacity. Armen Movsisyan, the Minister of Energy, said
that he would only consider a strategy for closing the plant
that guaranteed some diversity of electricity supply for
Armenia and did not result in a significant rise in
electricity tariffs. END SUMMARY.

ARMENIA IS WILLING TO OPERATE ANPP UNTIL 2015, MAYBE LONGER

[13.](#) (SBU) The European Commission's side, led by Hugues
Mingarelli, Director of the Directorate for External
Relations with Eastern Europe, sought to get a commitment on
a new closure date for the ANPP and a plan for assistance in
order to build replacement capacity for the plant. The
Armenian side, which comprised Armen Movsisyan, the Minister
of Energy, Karen Chshmarityan, the Minister of Trade and
Economic Development, and Ruben Shugaryan, Deputy Foreign
Minister, had bigger ideas. First, the Armenian side did
not concede that the ANPP was inherently unsafe. ANPP's
head, Gagik Markosyan, gave a very detailed presentation on
recent safety upgrades. (Note: US DOE programs in
combination with those of the EU are responsible for nearly
all the upgrades mentioned. End Note.) They said that the
plant could be safely operated until 2015, and could be
operated for longer with an extension upgrade common for
similar plants.

HAPPINESS IS MANY PIPELINES

[14.](#) (SBU) While Minister Movsisyan was careful to avoid
saying that this was their plan, all GOAM representatives
expressed the view that any acceptable agreement to close
the plant early must keep electricity prices stable and not
reduce diversity in Armenia's energy sources. The
Armenian's were concerned by the findings of the EU
consultant who said that Armenia has enough existing
capacity to close the plant and not have shortages in the
near term. This was in part on the agreed grounds that this
would then lead to 85 percent of their electricity supply
depending on fuel for gas-fired generation plants supplied
via the high-pressure pipeline through Georgia. The parties
agreed that the pipeline is in poor condition and needs
investment of USD 140 million, most of which would be in
Georgia. While the GOAM did include among their strategic
investments the proposal for a new combined cycle thermal
plant proposed by the Japanese, they did not propose this to
be considered for use of the EU funds to replace ANPP.
Instead, they outlined a USD 800 million energy strategy
that went far beyond the scope of just replacing ANPP's
capacity.

[15.](#) (U) Background. Armenia produced 5,188 GWh of
electricity last year, and consumption has remained
generally constant since 1999 (normalized for last year's
cold winter), although GNP has grown significantly.
Forecasts do not, therefore, link GNP growth directly to
growth in energy consumption. Future electricity demand
will increase, but probably modestly. The current installed
capacity of 3,157 MW, comprising nuclear (440 MW), hydro
(961 MW) and gas-fired (1756 MW) generation units

significantly exceeds the national peak demand, allowing Armenia to export energy. In 2003, hydro accounted for 38 percent of total generation, thermal plants for 27 percent and ANPP for 35 percent. Were the ANPP to close tomorrow, installed capacity of the other generation plants could meet Armenia's electricity demand now and in the near future, but the energy would be much more expensive. Closing the ANPP would raise variable costs by USD 30-45 million the first year and total costs by USD 80-90 million (or 80 percent) per year.

PIPE DREAMS

16. (SBU) In outlining Armenia's energy strategy, the Minister of Energy said Armenia's first energy priority was to build a pipeline with Iran, costing USD 120 million of Armenian investment. (Note: This issue, which we believe is not economically viable, will be addressed septel. End Note.) The strategy list also included a new 600 MW nuclear reactor and a USD 400 million project to develop wind energy resources among others, but the ministry did not propose any way to finance these alternative projects. Comment: While all these projects could plausibly meet Armenia's supply and diversity needs, none are financially feasible under current price regimes. The Regulatory Commission announced a tariff of 7 cents/KWh for wind-generated electricity, more than twice the tariff from other sources. Although the high tariff will encourage investment in small wind projects (40 MW) currently on the table, the cost to consumers at this tariff would be prohibitive if wind-generated electricity accounted for a more substantial share of overall production. While ultimately Armenia may find a way to finance one or more of these projects as a means to ensure diversity of energy supply, the government's plan also hints at a possible step backwards. If it involves heavy government involvement in a new energy generation projects, it is at odds with the stated policy of moving to complete privatization and create a regulatory framework that allows private industry and the market to decide on the cheapest means of producing electricity. End Comment.

EU MONEY OFF THE TABLE

17. (SBU) The EU noted that the Armenians clearly had now articulated energy security concerns that went well beyond their previous closure commitment and Mingarelli concluded that this meant that the EU would need to reflect on and review its previous commitment of support for replacement generation. They would now place future plans for energy sector support (if any) in the context of overall development of the EU-Armenian relationship. He indicated consideration of next steps would be placed in the broader context of the EU-Armenia Partnership and Cooperation Committee, which will next meet in June 2004. Comment: Despite the withdrawal of the EU offer, the Armenians got what they wanted. They now have no obligation to close the ANPP by any date certain. They have reframed the issue of an early closure in terms of their overall energy diversification problem, raising the stakes to include a project that will maintain their current production diversity but would not be feasible with private investment alone. In the scenario where large-scale international assistance is not forthcoming, they have bought themselves a decade to worry about diversity and security of energy supply in a post ANPP Armenia. One key issue the GOAM is studiously avoiding is financing ANPP shutdown costs, a bill that will come due at a yet-to-be-determined but inevitable future date. The EU's withdrawal has left an opportunity for the US to propose, alone or in concert with the EU, new solutions to Armenia's energy problem.

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